AGA, EIA, New York Times agree that gas prices will not fall soon

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In recent announcements, the AGA, the EIA and The New York Times reported that gas prices are high (up to $5/Mcf) and are going to stay there. Industry executives and analysts agree that today's prices underscore a fundamental shift that is occurring in the market toward demand that outstrips supply, says the Times.

AGA agrees. The trade organization said in late December that the run-up results from a growing mismatch between demand and supply. AGA says this will inevitably result in higher prices for consumers during the next 10 to 15 years.

AGA's new report, From the Ground Up: America's Natural Gas Supply Challenge, says North America holds abundant supplies, but emphasizes that the industry will have difficulty meeting increased demand unless policies that restrict exploration and production efforts are updated to reflect current technology, and unless additional gas supplies come from Alaska and overseas.

"Americans want a stable, reliable source of environmentally friendly energy that is produced in North America. They find it in natural gas. But, given the long lead time associated with producing and transporting natural gas, critical decisions must be made now," said AGA President and CEO Dave Parker.

He notes the irony that while a host of laws and regulations encourage homes, businesses, industries and power generators to use more gas because it is the cleanest fossil fuel, outdated concerns about the environmental impact of finding and producing natural gas make it increasingly more difficult to find the gas to meet the increasing demand.

Vince White of Devon Energy told The Times that through most of the 1990.9, natural gas prices generally remained between $1.75 and $2.50 per MMBtu. Devon is a major oil and gas exploration and production company based in Oklahoma City. But in the past three years, prices have hovered between $2.50 and $5 per MMBtu.

Devon thinks prices are going to remain high, compared to the 1990s, for several years. EnCana of Calgary, told The Times that there is lower supply now and an outlook for no big supply increases during 2003. It said there are no large exploration projects that could make a significant difference in supplies.

AGA's new report says natural gas production in the U.S. has "migrated" to the deepwater Gulf of Mexico, south Texas, north Texas/ Louisiana and the Rocky Mountain basins. However, AGA points to areas that are off limits to gas production and says they must also begin to be opened to drilling and exploration if the nation is to satisfy growing demand. Similarly, AGA says, growth in Canadian production is likely in Canada's offshore and coal bed natural gas resources.

In addition, AGA says, non-traditional supply sources such as Alaska gas and liquefied natural gas (LNG) likely will account for a major share of the growing supply mix. Alaska's total gas resource base might hold 250 Tcf, enough to support all of the nation's current gas needs if sufficient shipping capacity were available. Yet, AGA says, it may take eight to 10 years to site, permit and construct a pipeline from Alaska to the lower 48 states.

Parker puts gas customers on notice that, because short-term gas supply solutions are limited, they should be aware that weather and economic forces will continue to make prices gyrate for the next several years because of the tight supply-demand balance.

To meet America's gas supply challenge, the AGA recommends:

* Current restrictions on access to new sources be re-evaluated in light of technological improvements.

* Renewable forms of energy should play a greater role in meeting energy needs, but government officials and customers must realize that all forms of energy have some environmental impact.

* Federal and state officials must take the lead in overcoming the pervasive "not in my backyard" attitude toward energy infrastructure development.

* U.S. officials should work closely with Canada and Mexico.

EIA Sees Gas Prices Driven By Demand In Annual Energy Outlook 2003

Energy Information Administration's Annual Energy Outlook for 2003 (AE02003) says a major consideration for energy markets through 2025 will be the availability of adequate natural gas supplies at competitive prices to meet growth in demand.

The report projects a growing U.S. dependence on major new, large-volume natural gas supply projects for both domestic and imported supplies, including deepwater offshore wells, new and expanded liquefied natural gas (LNG) facilities, the Mackenzie Delta pipeline in Canada, and an Alaskan pipeline that would allow delivery of natural gas to the lower 48 states.

Average natural gas prices (including spot purchases and contracts) after 2002 are projected to move higher as new technology fails to offset the impacts of resource depletion and increased demand. Prices should increase in an uneven fashion because when they rise, this allows for the introduction of major new, large- volume projects that temporarily depress prices when initially brought on line.

EIA projects prices to reach about $3.70 per Mcf by 2020 and $3.90 by 2025 (equivalent to more than $7 per Mcf in nominal dollars).

Interestingly, average electricity prices are seen falling from 7.3 cents per kilowatt hour in 2001 to a low of 6.3 cents (2001 dollars) by 2007 as a result of cost reductions in an increasingly competitive market where excess generating capacity has resulted from the recent boom in construction and the continued decline in coal prices.

Total demand for natural gas is projected to increase at an average annual rate of 1.8 percent between 2001 and 2025, from 22.7 to 34.9 Tcf, primarily because of rapid growth in demand for power generation. Domestic natural gas production is projected to increase from 19.5 to 25.1 Tcf between 2001 and 2020, an average rate of 1.3 percent per year.

Despite the projected increase in domestic production, an increasing share of U.S. gas demand is projected to be met by imports via pipeline and LNG. Net imports are projected to increase from 3.7 Tcf (16 percent of total demand) in 2001 to 7.8 Tcf (22 percent of total demand) in 2025.

By, Lew Bullion, Senior Editor

Senior Editor Lew Bullion will report regularly in this column on issues involving the natural gas distribution sector If you have any comments or information, he can be reached at lbullion@oildompublishing.com.

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